

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 1917 - SB 2436

March 15, 2014

SUMMARY OF BILL: Requires employers participating in the Tennessee Consolidated Retirement System (TCRS) hybrid plan to provide matching contributions to employees making contributions to the defined contribution portion of the hybrid plan. The matching payment is capped at the lesser of two percent of the employee contribution or the maximum allowed by the Internal Revenue Service. Under current law, the matching contribution of the employer is equivalent to the employee contribution, up to \$50.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures \$2,619,700/FY14-15
\$4,964,700/FY15-16
Exceeds \$4,964,700/FY16-17 and Subsequent Years

Increase Federal Expenditures \$140,800/FY14-15
\$217,400/FY15-16
Exceeds \$217,400/FY16-17 and Subsequent Years

Increase Local Expenditures - \$1,464,900/FY14-15*
\$2,875,000/FY15-16*
Exceeds \$2,875,000/FY16-17 and Subsequent Years*

Other Fiscal Impact - Because the Hybrid Plan population is assumed to grow substantially as new employees are added to the plan, the total increase in liability to TCRS as a result of this bill is estimated to be \$86,000,000. Of this amount, the state's liability will increase by approximately \$54,000,000, the federal government's liability will increase by approximately \$4,000,000, and total local government liability will increase by approximately \$28,000,000.

Assumptions:

- TCRS provides retirement benefits for retired state employees, retired teachers and retired local government employees.
- Provisions of this bill will only impact new employees that participate in the Hybrid Plan. Current members of the TCRS plan will not be impacted.

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- Based upon information provided by TCRS, the annual liability to the Hybrid Plan resulting from provisions of the bill impacting state employees is estimated to be \$563,099 for FY14-15 and \$869,579 for FY15-16.
- Retirement benefits for retired state employees are funded 75 percent with state funds and 25 percent with federal funds. Therefore, there will be an increase in state expenditures of \$422,324 ($\$563,099 \times 75\%$) in FY14-15 and an increase in federal expenditures of \$140,775 ($\$563,099 \times 25\%$). In FY15-16, the increase in state expenditures will be \$652,184 ($\$869,579 \times 75\%$) and the increase in federal expenditures will be \$217,395 ($\$869,579 \times 25\%$).
- Based upon information provided by TCRS, the annual liability to the Hybrid Plan resulting from provisions of the bill impacting retired teachers is estimated to be \$3,662,340 in FY14-15 and \$7,187,597 for FY15-16.
- Retirement benefits for retired teachers are funded 60 percent with state funds and 40 percent with local funds. Therefore, in FY14-15 there will be an increase in state expenditures of \$2,197,404 ($\$3,662,340 \times 60\%$) and an increase in local expenditures of \$1,464,936 ($\$3,662,340 \times 40\%$). In FY15-16 the increase in state government expenditures related to teachers is estimated to be \$4,312,558 ($\$7,187,597 \times 60\%$) and the increase in local government expenditures is \$2,875,039 ($\$7,187,597 \times 40\%$).
- The total increase in state expenditures for FY14-15 is estimated to be \$2,619,728 ($\$422,324 + \$2,197,404$). The total increase in federal expenditures for FY14-15 is estimated to be \$140,775. The total increase in local expenditures for FY14-15 is estimated to be \$1,464,936.
- The total increase in state expenditures for FY15-16 is estimated to be \$4,964,742 ($\$652,184 + \$4,312,558$). The total increase in federal expenditures for FY15-16 is estimated to be \$217,395. The total increase in local expenditures for FY15-16 is estimated to be \$2,875,039.
- Because the number of new members will increase each year, the expense to federal, state, and local governments will continue to increase each year following FY15-16.

Article II, Section 24 of the Tennessee Constitution provides that: *no law of general application shall impose increased expenditures requirements on cities or counties unless the General Assembly shall provide that the state share the cost.*

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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